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CHAPTER 22

BREXIT AND SMALL STATES IN EUROPE

- HEDGING, HIDING OR SEEKING SHELTER?

Anders Wivel and Baldur Thorhallsson¹

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Introduction

‘There are two kinds of European nations’, Danish Finance Minister Kristian Jensen told the audience including the British Ambassador to Denmark at a Brexit conference in the Danish parliament in June 2017, ‘there are small nations and there are countries that have not yet realized they are small nations’ (Boffey 2017). Jensen’s remarks, provoking a spirited response from the British ambassador, signalled the bafflement – rather than disappointment or anger – from a small European state, which had allied closely with the United Kingdom on numerous issues concerning security, transatlantic relations, economic and political freedom and the institutional development of the EU. The Danish finance minister was not the only prominent representative from a small state trying to make sense of the British decision.

¹ We would like to thank Peter Nedergaard for useful comments on an earlier draft.

Economic policy-makers from small states inside and outside the EU were ‘consistently pessimistic about Brexit’ noting the experience of small EU outsiders having to limit their scope for domestic policy-making considerably in order to benefit from EU integration (O’Sullivan and Skilling 2017).

The aim of this chapter is to unpack how Brexit influences small states in Europe. The main argument is that while all small states are negatively affected by the British decision to invoke Article 50 of the Treaty of Lisbon and thereby to effectuate the outcome of the British 2016-referendum on EU-membership to leave the European Union, some small states are considerably more affected than others. As a result, small states are likely to pursue different strategies to meet the challenges following from Brexit. The most prominent among these strategies are hedging, hiding and seeking shelter.

The chapter proceeds in four steps. First, we identify the shared challenges and opportunities of small European states following from Brexit. Second, we zoom in on the variations in consequences of Brexit for different clusters of small states. Third, we discuss the strategic responses of small states to Brexit. Finally, we sum up our analysis and conclude the chapter.

Small states in Europe in Europe after Brexit: Do the dark clouds have a silver lining?

The decision of British voters to leave the European Union marks a turning point in the history of European integration. The European integration process has never before been rolled back to such an extent. Already in the early 1960s, Britain had given up on its initiative to create an alternative form of cooperation in Europe, the European Free Trade Area (EFTA),

and sought full participation in the European project. In 1973, two small states followed Britain into the Union and the remaining EFTA states (Austria, Norway, Portugal, Sweden, Switzerland and Iceland) signed free trade agreements with it. Britain has always been a champion of widening of the EU and trade liberalization in Europe, in general. Nowhere was this more evident than in the EU's enlargement processes after the end of the Cold War. Britain helped to push small states across Europe through the entrance gate of the Union. Small European states saw Britain as the main advocate of free trade allowing them the market access necessary for growth in their small economies and an important part of the security and defence mechanism of the EU. Accordingly, Brexit poses a serious challenge for small European states inside and outside of the EU.

A small state is by definition 'the weaker part in an asymmetric relationship, which is unable to change the nature or functioning of the relationship on its own' (Wivel et al. 2014: 9). In absolute and relative terms, they lack capabilities. Consequentially, scholars and policy-makers typically regard small states as vulnerable and with a more limited action space than great powers in the interactions with other states (Browning 2006; Hey 2003; Neumann and Gstöhl 2006). Thus, small states 'are stuck with the power configuration and its institutional expression, no matter what their specific relation to it is' (Mouritzen and Wivel 2005: 4). In particular, small states are vulnerable to international change and crisis, because of their smaller margin of time and error due to lack of (economic, military, diplomatic) resources (Jervis 1978: 172-173). Consequentially, small state foreign policies tend to be risk averse and status quo oriented aimed primarily aimed at reducing dependence and increasing action space with limited resources, in particular by working through international organizations (Toje 2010).

International organizations formalize interstate relations thereby levelling the playing field by requiring all states to play by the same rules. Even though power politics persist and powerful actors may continue to circumvent or even break the rules, institutionalization increases the cost for them to do so, because they need to argue why this is legitimate, and the use (and abuse) of power is more visible than without the rules (Neumann and Gstöhl 2006: 20). For this reason, ‘small states generally prefer multilateralism as both a path to influence and a means to restrain larger states’ (Steinsson and Thorhallsson 2017).

To most small states in Europe, the EU has offered a particularly useful tool for simultaneously maximizing influence and binding the larger member states (Bunse 2009; Goetschel 1998; Panke 2010; Steinmetz and Wivel 2010; Thorhallsson 2011). The EU provides a shelter for small states against multi-dimensional security challenges including military hard security, non-state violence and societal security challenges and economic volatility (Bailes and Thorhallsson 2013). Couched in the language of the small states literature, the EU increases the ‘margins of time and error’ for small states by supplying an institutional cushion against external shocks backed up by the combined capabilities of the member states, including the continental great powers. At the same time, EU integration has replaced military balancing between competing European power centers with a single center by channeling ‘national security concerns and replace rivalry among competing power centers with cohesion around a single power center, symbolically located in Brussels, but actually in the Franco-German coalition’ (Wæver 1998: 47). Thus, to the small EU member states, the EU provides a shelter against global shocks as well as intra-European great power rivalry. At the same time, the EU provides a platform for European and global influence for small states, even though, ‘[s]ize is an advantage in EU negotiations, since bigger states are simply in a position to do more’ (Panke 2015: 69), because of their financial and diplomatic

resources as well as more votes in the Council and parliamentarians in the European Parliament. These shelter and platform effects are partly due to the reconstruction of the European political space, which has transformed the fundamental problematic of small EU and NATO members from a ‘survival problem’ to an ‘influence problem’ (Løvold 2004). Free from worrying about a military attack from nearby great powers and embedded in a complex network of European and Euro-Atlantic institutions, small states have the opportunity to seek influence. Moreover, they have a strong incentive to do so to maximize their influence and action space in the highly institutionalized European political space (Björkdahl 2008; Grøn and Wivel 2011; Jakobsen 2009; Nasra 2011; Panke 2015).

Although these functions are most pertinent to small EU member states, they have important spill-over effects for small non-members. Thus, rather than a question of either/or, EU-integration affects small European states on a continuum. At one end, we find core member states (the Benelux countries as well as member states from Central and Eastern European and the Mediterranean joining through the EU enlargements in 2004, 2007 and 2013). These are the small states affected most by EU integration in the sense of having their action space most severely limited by EU rules and regulations, but also enjoying the best chance of influencing the EU through multiple formal and informal channels. Moving along the continuum, we find member states with opt-outs (Sweden and Denmark), EFTA/EEA states (Norway, Iceland, Lichtenstein, Switzerland), and finally EU and EFTA/EEA outsiders (Serbia, Bosnia & Herzegovina, Former Yugoslav Republic of Macedonia, Albania, Kosovo, Montenegro, Moldova as well as the micro states Andorra, Monaco, San Marino, Vatican City). While this last group of small states have very limited means of influencing EU policy-making, they still enjoy the benefits of political stability and economic growth (favourable access to the EU market) as well as access to specific EU programmes (e.g. Moldova is

covered by the European Neighbourhood Policy (ENP) and Albania is part of the Euro-Mediterranean Partnership).

In this context, Brexit poses a quadruple challenge to small European states. First, the decision of the United Kingdom to leave the EU has deepened the post-Euro crisis debate on whether the EU is now experiencing a crisis, which is existential, multi-dimensional and unprecedented and potentially transforming differentiated integration into differentiated disintegration (Dinan et al. 2017: 373).

Second, while this process may by itself undermine the shelter and platform benefits of EU integration for small European states, the potential solution could add even further to the small states' post-Brexit conundrum. Solving an extraordinary crisis demands extraordinary leadership, and Germany and France have used the British activation of Article 50 to reconfirm their strong coalition ties. Thus, Brexit leaves small states in Europe with an increasing risk of a German-Franco 'cooperative hegemony' pre-conditioned on 'a capacity for power-sharing vis-à-vis smaller states in a region, for power aggregation on the part of the predominant regional state(s) and for commitment to a long-term regionalist policy strategy' (Pedersen 2002: 684). Although rarely a constructive player in the European integration process, Britain has played the important role of jester to the Franco-German court: questioning the rationale and good intentions of the two dominant powers of the integration process and pointing to potentially negative consequences of deepened integration. By doing this, the United Kingdom has provided a shelter for small states that may not agree with all British arguments, but have still benefitted from the UK bearing the costs of balancing Germany and France.

Third, Brexit is likely to result in a recalibration of the transatlantic relationship. While the United Kingdom and the United States will preserve a ‘special relationship’, it is likely that a second special relationship will develop between the United States and the Franco-German axis (Fondation Robert Schuman 2016). This development will limit the action space of small European states as close informal ties between the United States and a Franco-German cooperative hegemony will leave little room for the influence of other actors. The ability of small EU member states to have a say on the joint decision-making of these powers will depend on the strength of the EU institutions and the possibility of small states to influence decisions taken within them.

Finally, small states share with other European states a number of practical challenges regarding their citizens’ right to life and work in Britain and access to the British market when Britain leaves the EU. However, because of their limited size and ties to the United Kingdom a number of small states with strong political or economic affiliations with the United Kingdom are likely to be hit particularly badly by the fallout from a hard Brexit. Consequentially, Sweden, the Netherlands, Lithuania, Latvia, Ireland, Estonia, Denmark and Cyprus – are proponents of a soft Brexit. They have more to lose from looser trade, investment and security ties with Britain than other member states, which demand a costly withdrawal (Economist Intelligence Unit 2017).

Taken together these four challenges threaten to undermine some of the most fundamental benefits from European integration that small states have enjoyed for more than half a century. However, there are three reasons why the dark clouds gathering over European small states after Brexit may not turn out to be an inevitable thunderstorm.

First, Brexit may be seen as the logical conclusion of a long history of British self-marginalization in the EU beginning with the election of Margaret Thatcher as British prime minister in 1979, intensified since the election of David Cameron as Prime Minister in 2010 and concluded by the 2016 referendum (see also chapter xx on British Historical Exceptionalism). This process has gradually decreased the value of the United Kingdom as an ally of small states even when they – e.g. in the case of Denmark – shared a scepticism towards supra-nationalism, an Atlanticist foreign and security policy and an agenda of free trade. Consequently, for some traditional small state allies of the UK, such as Malta, the EU has outperformed Britain as a shelter against external challenges and as a platform for influence and growth (Follain et al. 2017). Thus, the political cost of Brexit to small EU member allies of the United Kingdom is significantly lower than it would have been two decades ago.

Second, the explicit British focus on maximizing national benefits from European integration has helped legitimize not only increased intergovernmentalism, but also large member states flexing their muscle to push for special treatment even when this risked circumventing or undermining European institutions. For this reason, continued British membership of the EU could have had the effect of undermining the shelter and platform benefits of EU integration for small states.

Finally, although a Franco-German cooperative hegemony, with Germany as the prime leader, poses several challenges to small European states as noted above, Germany has built its power and legitimacy on being a European power safeguarding and developing the institutionalization and stabilization of the European political space with non-coercive means. Paradoxically, the most powerful state in Europe may serve as the best guarantee against

undermining the benefits of EU integration for small states. Moreover, Germany's greater assertiveness within the EU has been evident in the last few years, such as regarding its response to and leadership role in the financial and migrations crises, long before the Brexit referendum.

Variations on a theme: clusters of small states in post-Brexit Europe

Brexit is likely to change the EU's balance of power in the long-term. In addition to strengthening the Franco-German axis into what might in effect be a Franco-German hegemony with Germany as the main leader, small states are likely to be part of losing or winning clusters of this rebalancing depending on their economic and political affiliations with the United Kingdom (Patel and Reh 2016).

One set of small state clusters pertain to the European security order. France and Germany are the two strongest military powers in a post-Brexit EU. Following the British referendum, the remaining 27 member states have already committed to strengthening the EU's security and defence policy. The EU's new security strategy was published only a week after the British referendum in June 2016 and stressed the need for hard security instruments. At the European summit in December 2016, member states approved a package focusing on capability development, military planning and research, and, in June 2017, the European Commission launched the European Defence Fund in order to underpin collaboration on research, development and acquisition. This will potentially affect Atlanticist small EU members such Denmark, the Netherlands and the Baltic states, which stand to lose their most important ally in the EU in regard to transatlantic relations and national security, when the

United Kingdom leaves the EU. With the United Kingdom pushing for a stronger role for NATO in Europe post-Brexit, and Germany and France eager to develop the EU as a security actor, these states may find themselves caught in the middle with little influence on institutional developments, while facing demands for contributions from both organizations. On the other hand, small states in favour of strengthening the EU's security and defence policy, such as Finland and Sweden, may gain from stronger EU defences.

Another set of small state clusters pertain to the political economy of the EU. The small states in the Northern liberal cluster (including Sweden, Denmark, Finland the Netherlands, and the Baltic states) have most to lose from Brexit. Germany and Britain are the most powerful members of the cluster and with Britain's departure from the EU the weight of the cluster will decline. Germany is already seeking to rekindle relations with France and more likely seek leadership of the EU as a whole than one cluster of states within the Union. In contrast, the Southern protectionist cluster (including the small states Greece, Portugal and Cyprus along with France, Italy and Spain) is likely to be strengthened as a consequence of Brexit. At present, both clusters have a blocking minority in the Council, but Britain's withdrawal from the EU will mean that the Northern liberal cluster will lose its blocking minority. Sweden, Denmark and the Netherlands are the main allies of Britain in the Council in terms of voting most often with it. Germany is least likely to vote with Britain according to VoteWatch data (cited in Patel and Reh 2016). Thus, Germany's position might become stronger within the Union after the withdrawal of Britain. This is a worry for some of the small states, which are concerned about German domination but at the same time could strengthen the small states' ad hoc alliances with Germany in the Council (Patel and Reh 2016).

To be sure, there are strong national variations within the Northern liberal cluster and the Southern protectionist cluster of small states reflecting the national challenges and opportunities following from Brexit. A KPMG study on the consequences of Brexit for EU member states found that the negative economic implications of Brexit were cutting across the two clusters: Ireland, Cyprus and Malta are the biggest losers, while small member states such as Sweden, Finland and Slovenia are among those state least affected (Gilchrist 2017). Also, the specific type of consequences varies. Portugal will mainly feel the effect on its export of wine and port to the United Kingdom (Spindler 2016). Malta will feel the effect on both imports and exports as well as in regard to the large number of Maltese citizens living in the EU and the large number of British citizens living in Malta (Haig 2016). For small Central and Eastern European EU member states a main concern will be the future of their many citizens working in the UK and sending home a substantial part of their income. Thus, in Latvia, Lithuania, Hungary and Croatia more than 3 percent of GDP comes from remittances from citizens working abroad, typically in another EU country and many of them in the UK (Gilchrist 2017).

Also, opportunities for small EU member states stemming from Brexit cuts across the two political economy clusters and reflect national economic, political and administrative structures. For instance, Greece may welcome a less liberal Europe, but resent a Europe with an even wider action space for the ‘ordoliberal’ agenda-setting powers of Germany (Nedergaard and Snaith 2015). At the same time, the Greek government is working to take advantage of new opportunities resulting from Brexit by persuading shipping companies and shipping-insurance companies based in London to move their EU headquarters to Greece (Tugwell and Nikas 2017). Likewise, Denmark may be losing an important ally, but at the same time, the Danish government and financial sector sees opportunities in attracting banks,

brokers and insurance companies located in London to Copenhagen with the aim of creating a Scandinavian financial hub. Also, the Danish government saw opportunities in strengthening the Copenhagen area ‘Medicon Valley’, e.g. by attracting the European Medicines Agency now located in London with a staff of 900 and estimated economic effects of several billion Danish kroner (Sørensen and Wivel 2017). However, Denmark lost its bid to host the agency after a fierce competition with a number of small member states including the eventual winner, the Netherlands. Malta maybe set to suffer heavily from Brexit, because of the strong economic, historical and cultural ties to the UK. However, at the same time, but the Maltese government sees important opportunities in attracting the EU headquarters of multinational companies located in Britain pointing to the advantages of English as its official language, a British educational system and work ethic and – as a bonus – a Mediterranean quality of life (Haig 2016).

The three small EFTA/EEA states constitute a third post-Brexit small state cluster in addition to the clusters based on the European security order and the political economy of the EU. They face the same general challenges from Brexit as the small EU member states identified above, but in addition they face a number of challenges and opportunities following from their EFTA/EEA status (e.g. see, EFTA 2017a; Thorhallsson and Gunnarsson 2017). The UK-EFTA trade (including Switzerland) is significant. In 2015, total UK-EFTA trade in goods and services was higher than trade between UK and France (Phinnemore and Najy 2017). In 2016, export from the four EFTA states to the UK was worth 27.625 million Euros and import from the UK to EFTA states 9.481 million Euros (EFTA 2017b).

Consequentially, Brexit is the ‘highest priority’ in the Icelandic Ministry for Foreign Affairs (Guðmundsson 2017), which as identified a number of issues of concern for Iceland such as eviction landing rights of Icelandic airlines in Britain (Þórðarson 2017).

Britain's exit from the EU is likely to change the geopolitics and geoeconomics of the North Atlantic, the UK's immediate regional setting. Brexit will add to the list of states (Norway, Iceland, Canada and the United States, Britain) and entities (Greenland and the Faroe Islands) in the region that are not part of the EU. This creates uncertainty in the relations to what role Britain will require for itself in the region, e.g. in regard to the opening of the Arctic Ocean. In the wake of the Brexit negotiations, Britain has decided to withdraw from the London Fisheries Convention from 1964, which allows countries to fish near each others' coasts (McHugh 2017). The Icelandic government has raised concerns over having yet another state/actor taking part in negotiations over common fish stocks in the North Atlantic making the negotiations even more complex than they are at present, and Norway and Denmark have raised concerns about the future of fishing rights (FishUpdate 2017; Guardian 2017). Also, Brexit means that a new powerful actor, Britain, will get a seat at the negotiation table in the North Atlantic concerning policy sectors such as environmental protection and sailing/shipping. Moreover, Norway and Iceland follow closely the Scottish debate on independence in relations with Britain's departure from the Union since it could create new situation in the North Atlantic (Þórðarson 2017).

On the other hand, Brexit may create opportunities for the North Atlantic region. For instance, after the Brexit referendum, the President of Iceland, Ólafur Ragnar Grímsson, claimed that Brexit was good news for the region, stating that the states' relations in the region, on both sides of the North Atlantic, would undergo positive changes (Iceland Monitor 2016b). Although, more cautious and stressing the continued importance of the EU, leading Danish politicians emphasized that Brexit signaled a legitimate and necessary call for reforms of the EU (Larsen 2016). Britain is likely to campaign for a stronger NATO after its

withdrawal from the Union, and in light of growing disputes between the West and Russia, might seek to strengthen its security and defence ties with states in the region. This move would be highly welcomed by the small Atlanticist states such as Denmark, Norway and Iceland (e.g. see Thorhallsson and Gunnarsson 2017).

Responding to Brexit: Hedging, hiding or seeking shelter?

Small European states are likely to pursue three different strategies when seeking to limit the costs and maximizing the potential benefits from Brexit: Hedging, hiding and seeking shelter. Traditionally, small states have sought either to ‘opt-out’ of international relations by pursuing so-called hiding strategies, i.e. signaling that they do not take sides in the overall struggle between great powers or to seek economic, military and societal shelter from great powers and international organizations (Bailes and Thorhallsson 2013; Fox 1959; Smed and Wivel 2017; Vital 1967). For the majority of small European states, a combination of hiding and seeking shelter will be the logical strategic response to Brexit. This is true for the small states that remain outside the EU/EFTA/EEA. It is also true for small member states in Central and Eastern Europe and the Mediterranean without specific historical, political and economic ties to the United Kingdom. Like other EU member states they face questions of their citizens’ right to life and work in Britain and access to the British market, but they have little incentive to spend any political capital on the issue. Thus, these small states are likely to ‘hide’ from Brexit by only stating vaguely (or not at all) their preferences on Brexit negotiation issues and seek shelter from the EU. In sum, they are pursuing a classical small state approach of staying out of trouble and free-riding on the order negotiated by the great powers.

For the small states affected directly by Brexit, because they are part of one or more of the three clusters identified in the previous section, the cost-benefit analysis is different. These states have a common interest in a soft Brexit with continuing strong economic and political ties between the EU and the United Kingdom and between the individual states and the United Kingdom. Because of their close ties with the United Kingdom, they may also have particular policy interests not only in a soft Brexit, but also on the specific content of a soft Brexit. For these states, a combination of hiding and shelter seeking will be insufficient. Instead, they are likely to pursue a hedging strategy seeking to spread their bets by taking shelter from the EU and its big member states, whenever necessary but seeking to form coalitions with likeminded states on specific aspects of a Brexit deal as well as on the timetable and format of the Brexit process. In turn, these coalitions may serve as post-Brexit caucuses within the EU, even though small states 'are unlikely to risk undermining EU cohesion' (Economist Intelligence Unit 2017).

One example of an emerging small states coalition/caucus is Ireland, the Netherlands and Denmark. These three countries share an Atlanticist, free trade agenda and a relatively intergovernmentalist approach to EU integration as well as close economic and political ties with the United Kingdom (Sørensen and Wivel 2017). In April 2017, the Irish Prime Minister Taoiseach Enda Kenny - meeting with his Dutch and Danish counterparts, Mark Rutte and Lars Løkke Rasmussen, for a Brexit mini-summit in the Hague - stressed that the EU needed to consider the concerns of small states and work towards fair and pragmatic solutions in a Brexit deal (Minihan 2017). He noted that 'we have similar interests of a very common nature and we wanted those reflected in the ground rules being set out by the European Council'. Prime Minister Rutte noted that the three countries focused on concerns about EU citizens European businesses based in the United Kingdom. The three Prime Ministers were

keen to stress that they did not constitute a breakaway group or intra-EU alliance, but as noted by Naomi O’Leary of Politico: ‘The three have much in common. They are all big exporters to the U.K. They have all been on London’s side in the past in EU negotiations, tending toward a liberal, trade-friendly vision of the bloc. With the U.K.’s departure, they are all losing an ally in the internal politics of the EU’ (O’Leary 2017). This may be the beginning of an inner circle of small likeminded states seeking to influence not only the Brexit process but also the EU in general. Only a few weeks before the mini-summit, Danish Foreign Minister Anders Samuelsen went on a trip to Lisbon, Vienna and Prague with an explicit aim of seeking partners to balance Franco-German leadership in the EU. The Danish minister saw opportunities for e.g. cooperating with Portugal on stabilizing NATO and strengthening transatlantic free trade, and cooperating with Austria on reducing red tape in EU practices (Sørensen and Wivel 2017).

For the EFTA/EEA states, Brexit may prove an efficient way of hedging by integrating the United Kingdom into EFTA, while maintaining strong ties with the EU and its member states. Thus, the current Icelandic Foreign Minister, just as his predecessor (Reid 2016), has taken the lead in encroaching Britain to apply for membership in EFTA (Chan 2017). The Foreign Minister has emphasized the possibility of Iceland and the other EFTA states to follow the British lead and make free trade agreements with states around the globe (Tryggvason 2017). Potentially, this could result in a better trade deal with Britain than they enjoy at present (Iceland and Norway still pay tariffs on some of their marine export to the other EEA states) (Helgason and Sigurfinsson 2017). On the other hand, the governments in Norway and Switzerland have been cautious about the possibility of Britain joining EFTA. They fear that Britain might take over their leadership role in the organization and that the current tension between Britain and the EU might damage the good working relationship

between EFTA and the EU (Phinnemore and Najy 2017).

Conclusions: Missing the bull in the China shop?

Brexit is a challenge for small European states. The post-Brexit rebalancing of the EU and recalibrating of the transatlantic relationship is likely to strengthen the Franco-German axis potentially leading to a cooperative hegemony over Europe with Germany as the principal leader. This will limit the foreign policy action space of small states in Europe. Even though Britain was routinely mocked for acting as the bull in the china shop, many small states benefitted from somebody else breaking the china, when EU member states disagreed over institutional reforms and policy development. Thus, Britain provided small states with an often-overlooked shelter against Franco-German dominance and a critical interrogation of new developments useful in any democratic political space. The ability of the small states to deter the supremacy of Germany and France will depend on the strength of the EU institutional framework in limiting their unilateral scope of action within the Union.

To the majority of small EU member states Brexit will lead to few new policy initiatives, as they will seek shelter from Germany and France in the negotiations with the United Kingdom and the institutional reforms that follow. A group of North European Atlanticist, free trade small states with a predominantly intergovernmentalist approach to EU integration will see their strongest political and economic ally leave the EU. Others such as Portugal or Austria will find themselves in opposition to Germany and France on selected issue areas. Not surprisingly, these states have already begun to hedge their diplomatic bets seeking informal negotiations and creating a loosely bound small state coalition. On the other hand, the small states which will follow the France and German policy preferences and align themselves with

their visions of deeper European political and economic integration may benefit from the reinforcement of the Franco-German powerhouse.

For the EFTA/EEA states, Brexit entails opportunities as well as challenges. Iceland and Norway may become less dependent on the EU if they manage to utilize Brexit in their advance and develop closer security, trade and cultural relations with Britain in a post Brexit world. This might in particular become the case if Britain re-joins EFTA as already suggested by some politicians and academics. For instance, Phinnemore and Najy (2017) have suggested that Britain considers joining EFTA in order for it to ease the complex challenges it faces concerning Brexit and maintain some continuity in its trade relations with the EFTA states and the 38 states with whom EFTA has concluded free trade agreements. They claim that Britain would be much more at ease with EFTA membership than EU membership, legally, politically and financially. On the other hand, they identify EFTA commitment to free movement of persons as the main hindrance of British membership. Hence, they propose that Britain seeks an association with EFTA (UKEFTA) – a similar arrangement Finland had with EFTA (FINEFTA) from the early 1960s to the mid-1980s (*ibid.*). British membership or association with EFTA would transform the organization and its relations with the EU – even though Britain would not join the EEA – and firmly place it on the political and economic map in Europe and around the globe. This could provide the current small member states of EFTA with several new opportunities in Britain and in relations with their trade dealings with states outside Europe. However, Brexit has created great uncertainty for the relations between the EFTA states and Britain and there are no guarantees that the states' relations will triumph after Britain leaves the EU; at present Britain has not signalled its intention to join or seek association with EFTA, and Norway and Switzerland are sceptical about such a scenario.

Brexit has had a limited impact on national politics across the EU member states especially when compared with the Eurozone crisis and the migration crisis. However, it has ‘dramatically *reduced* party-based Euroscepticism’ in Ireland ‘due to: economic uncertainty, the opportunities it presents for Irish ‘reunification’ and for Ireland to act as a bridge between the UK and EU, and its association with English nationalism’ (Szczerbiak and Taggart 2017, 2). In addition, Brexit ‘definitely changed the public debate in terms of redefining Euroscepticism’ in posing a more pressing question on the EU’s future (Exadaktylos et al. 2017: 1). For example, Szczerbiak and Taggart (2017) surveys indicate that Brexit has had an impact on the EU debate in small EU member states such as Denmark, Greece and Austria. Most likely, Britain’s withdrawal from the EU will make it much harder for pro-Europeans to sell membership to the already Euro-sceptical public in Norway, Switzerland and Iceland. Brexit has already influenced the EU debate in Iceland and firmly *frozen* its EU accession negotiations, which have been on hold since 2013 (e.g. see, Iceland Monitor 2016a). In contrast, the impact of Brexit has been relatively modest in the Netherlands.

It remains to be seen how Brexit will affect Euro-scepticism in small European states in the long run, but evaluations of the pros and cons of EU membership are likely to be influenced by British successes and failures in relations to Brexit. If Brexit is generally seen as having negative effects on Britain, it may lead to greater support for the Union. And if life outside the Union will turn particularly bad for the British this might even convince the pro-European side in Iceland to start again to campaign actively for membership – more is needed for that to happen in Norway and Switzerland. If British economy is flourishing after its departure from the EU and its political influence is maintained or even increased, this will have an impact the EU debate in states such as Denmark, Sweden and Finland, and be near impossible to sell EU membership in the EFTA states.

All European states may be small states as argued by the Danish Finance Minister in the beginning of this chapter. However, some European states are smaller than others. The United Kingdom has – because of its size and capabilities and being a leading proponent of Atlanticism, free trade and intergovernmentalism played a pivotal role in EU integration balancing the Franco-German coalition and providing a shelter for likeminded small states. Without the United Kingdom these states have started to hedge their diplomatic bets by creating new coalitions, while continuing to signal their support for EU integration and avoiding direct opposition to Germany and France. The success of these coalitions in combination with British success or failure to create a new shelter outside the EU will affect not only the future of small European states after Brexit but EU integration in general.

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